

FISCAL NOTE

Bill #: SB0143

Title: Enact a 4% sales tax; provide low-income sales tax credit against income taxes

Primary

Sponsor: Mike Sprague

Status: As introduced

Sponsor signature	Date	Dave Lewis, Budget Director	Date
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Fiscal Summary

	<u>FY2000 Difference</u>	<u>FY2001 Difference</u>
Expenditures:		
General Fund	\$2,436,287	\$5,300,000
Revenue:		
General Fund	\$216,814,500	\$417,718,300
State Special Revenue	\$6,678,000	\$13,658,000
Net Impact on General Fund Balance:	\$214,378,213	\$412,418,300

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

LOW-INCOME SALES TAX CREDIT

1. The low-income sales tax credit applies to tax year 2000, is refundable in nature, and will be fully reflected in fiscal year 2001 revenues.
2. Based on tax year 1997 individual income tax returns, a total of 288,160 exemptions will be eligible for an average credit of \$79.19, for a total credit of \$22,818,000.
3. An additional 52,828 individuals not currently filing on income tax returns will file to receive the refundable credit, at an average credit of \$90, for an additional credit of \$4,754,000.
4. The total amount of low-income sales tax credit against individual income taxes in fiscal year 2001 is \$27,572,000.

SALES TAX

The sales tax provided for in this bill is effective January 1, 2000; collections are remitted on a monthly basis; and sales tax revenue will be received first in February of 2000.

1. Total sales tax liability before bad debts, uncollectibles, and noncompliance is \$504,580,000 in CY2000 and \$524,208,000 in CY2001.
2. All sales by residential and commercial general construction contractors are taxable.
3. Sales by special trade construction contractors such as plumbing, heating and air conditioning, and electrical are taxable.
4. Sales of services by special trade contractors to general contractors are not taxable because the industry is expected to make use of the sale of a service for resale exemption.
5. Purchases of construction services by government are not taxable.
6. Wholesale transactions, as defined according to Standard Industrial Code (SIC), are taxable unless they are sales for resale, sales of component or ingredient goods for use in manufacturing and mining, or the exempted agricultural inputs.
7. Sales of businesses classified as retail trade are taxable unless they are items specifically exempted in the bill or occur to out-of-state consumers (sales to non-residents consuming within Montana are taxable).
8. Taxable sales in the service sector include sales by non-profit entities and membership organizations.
9. In the transportation, communication, and utilities sector (TCU) state and local purchases of utilities and communications are taxable transactions.
10. All sales in the TCU sector made to the federal government are exempt from taxation; only transportation sales within the TCU sector are exempt to state and local governments.
11. The portion of total TCU sales to state and local governments comprising the transportation component is the same as the portion of all transportation sales to all TCU sales.
12. For the finance, insurance, and real estate sector only the ancillary services provided by banks and insurance companies are taxable: deposit box fees, traveler's check sales, checking account fees, investment counseling, and fees by insurance adjusters.
13. Bad debts, uncollectibles, and noncompliance reduce collections by 5% per year.
14. Vendor allowances are 1.5% of sales tax liabilities.
15. New car sales tax liability is \$34,028,000 in CY2000 and \$35,352,000 in CY2001; new car collections are distributed 2% to the county treasury for the cost of administration, and the remaining 98% of collections are distributed 62.5% to the sales and use tax account and 37.5% to the highways account.
16. Used car sales tax liability is \$29,515,000 in CY2000 and \$30,664,000 in CY2001; used car sales tax collections are distributed 50% to the sales and use tax account and 50% to the motor vehicles account distributed as provided in 61-3-509, MCA.
17. Sales taxes are remitted monthly in equal amounts throughout each calendar year.
18. Sales taxes paid to the state are accrued at the end of each fiscal year.
19. The above assumptions result in the following sales and use tax collections (net of noncompliance): from the general sales tax \$207,904,000 in FY2000 and \$425,242,600 in FY2001; from the new cars sales tax \$16,673,720 in FY2000 and \$34,104,327 in FY2001; from the used car sales tax \$14,757,500 in FY2000 and \$30,185,250 in FY2001; for total collections of \$239,335,220 in FY2000 and \$489,532,177 in FY2001.
20. Total new collections resulting from the bill, after adjusting for the current 1.5% new car sales tax, is 233,082,575 in FY2000 and \$476,743,054 in FY2001.
21. Total sales and use tax account collections is \$222,584,825 for FY2000 and \$455,271,429 for FY2001.
22. The sales and use tax account is distributed 97% to the general fund and 3% to the special revenue fund for the university system.

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23. Revenue dispersed pursuant to the motor vehicle suspense fund, MCA 61-3-509, is distributed 24% to the state, 27% to counties, 6% to cities and towns, and 43% to schools.

UNIVERSITY SYSTEM MILL LEVY

1. The 6-mill levy for the university system will be in place in fiscal years 2000 and 2001.
2. Based on projected current law taxable valuations and non-levy revenues, it is estimated that a statewide mill levy of six mills would generate \$14,561,000 in fiscal 2000 and \$14,737,000 in fiscal 2001.
3. 3% of sales and use tax revenue is allocated to the 6-mill levy account; this increases revenues to this account by \$6,684,000 in fiscal 2000, and by \$13,683,000 in fiscal 2001.

DEPARTMENT OF REVENUE OPERATIONS

1. As the bill is written, the Department of Revenue would need to incur substantial costs prior to the public vote in order to be in a position to implement this tax in Calendar Year 2000 (see technical notes).
2. Further, given the estimated costs of developing a computer system to support the administration of this tax, estimated to be in the range of \$5 to \$8 million, the Information Technology (IT) development costs are assumed to be bonded, as was approved last session in HB 188. Therefore, debt service @ 4.25% for 10 years on an estimated extra \$5 million system development cost is included in the numbers shown below. This assumes that the bonds would be issued in FY2000, and the first bond payment scheduled for FY2001.
3. Ongoing operating expenses associated with the general sales tax are estimated to be in the range of 1.0% to 1.1% of collections or $(1.05\% \times \$504 \text{ million per year} = \$5.3 \text{ million per year})$.
4. To allow the requirements definition phase of building the tax system to begin immediately, **the Department would request \$300,000 in FY1999 as a supplemental budget request.**
5. Assuming the earliest the Department could begin responsibly collecting the tax is July 15, 2000, the activities in FY2000 would focus on system development, development of forms and procedures, education and enrollment of Montana businesses, recruitment and training of Department of Revenue staff, purchase of equipment and implementation activities. Accordingly, the funding request for FY2000 would equal \$2.2 million, and does not include processing or examination.
6. Funding for FY2001 would be the full \$5.3 million, including the approximate debt service cost of \$.624 million.

Secretary of State

1. For purposes of CI-75 and submitting SB 143 to the electorate, this issue is only one of many likely to be submitted. Therefore, the impact presented in the fiscal note is only for the "extra" (marginal) cost which would be incurred by the state in preparing a Voter Information Packet (VIP) for the specific issue contained in the proposed bill. The VIP circulation is 525,000.
2. SB 143 will require at least 42 pages of explanation to be printed in the VIP at .00236 cents per page for a total cost of \$52,038. $(42 \times .00236 \times 525,000)$
3. Although counties also will incur a cost for distribution of the VIP, funding will be distributed to the counties by the Secretary of State for this purpose. County cost is .008356 per page for a total of cost of \$184,249. $(42 \times .008356 \times 525,000)$
4. Although the Secretary of State does not have a general fund budget, the cost of submitting these issues to the electorate will be supported with general fund.

FISCAL IMPACT:

FY2000

FY2001

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Department of Revenue	<u>Difference</u>	<u>Difference</u>
<u>Expenditures:</u>		
Operating Expenses	\$2,200,000	\$5,300,000
<u>Funding:</u>		
General Fund (01)	\$2,200,000	\$5,300,000
<u>Revenues:</u>		
General Fund (01)	\$216,814,500	\$417,718,300
State Special Revenue (02)	\$6,678,000	\$13,658,000

Secretary of State

<u>Expenditures:</u>	
Operating Expenses	\$52,038
Transfer to Counties	<u>\$184,249</u>
TOTAL	\$236,287

<u>Funding:</u>	
General Fund (01)	\$236,287

<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	\$214,378,213	\$412,418,300
State Special Revenue (02)	\$6,678,000	\$13,658,000

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

The 2% retention of new car sales tax collections by county governments for the cost of administration results in an estimated increase in county government revenue of \$340,280 in FY2000 and \$693,800 in FY2001. The 50% of the used car sales tax that is distributed to the motor vehicles suspense fund and disbursed as provided in 61-3-509, MCA, results in following estimated revenue changes: county government revenue increases \$983,438 in FY2000 and \$3,984,797 in FY2001; city/town government revenue increases \$219,358 in FY2000 and \$888,817 in FY2001; school revenue increases by \$1,579,033 in FY2000 and \$6,398,093 in FY2001.

CI -75: For SB 143 the mailing costs of the VIP and the extra item on the ballot would be marginal costs. Assuming 42 pages for this issue at .008356 per page distributed to 525,000 addresses, counties would incur a cost of \$184,249 in FY 2000. See the third assumption of Secretary of State.

LONG-RANGE IMPACTS:

The long range impact is that the state will have a retail sales tax that will provide a substantial amount of state revenue.

TECHNICAL NOTES:

For purposes of CI-75 in FY 2000, a statewide election would have a base cost of \$690,000 for the counties and \$46,987 for the state for total general fund of \$736,987. General fund will be appropriated in HB2 to the

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Secretary of State for this statewide base cost and all the cumulative per-ballot-issue marginal costs at the end of the session. The cost of the ballot issue election will be contained in the companion bill.

The bill as written calls for a public vote in September of 1999, and if approved, the first returns to be filed in February of calendar year 2000. Developing and implementing the system in only 5 months is not possible.

If the desire is to begin collections as soon as possible in Calendar Year 2000, funding to develop the system must be provided as soon as April 1999. This funding would allow the development of a requirements definition for the system (estimated duration 3 months) followed immediately by development and implementation (estimated duration 10 months). Therefore, a more achievable effective date would be June 1, 2000, with the first returns due July 15, 2000.

The tax processing system that the Department of Revenue would propose to develop would integrate this new sales tax into the POINTS system, Phase I, scheduled for completion in September, 1999. The best estimate of costs to do so is \$5 to \$8 million which could potentially be included in the Department of Revenue IT Bonding request (HB15). Funding these type of expenditures over the course of 10 years operates to mitigate the up-front implementation costs, but does increase the overall expenditure by the interest payments on the debt. For purposes of this estimate, interest rates on a ten year bond were estimated to be 4.25%.

TECHNICAL NOTES in consideration of CI-75

1. The costs presented for the SB 143 ballot issue will be included in a comprehensive analysis of the planned electorate vote(s) prior to the end of the session, based on all ballot issues adopted by the 56th Legislative Assembly.
1. When considering the comprehensive costs of an electorate vote, any costs greater than \$194,203 which are distributed to the counties must be funded by the Legislature (1-2-112, MCA).
2. For FY 2000, a statewide election would have a base cost of \$690,000 for the counties and \$46,987 for the state for total general fund of \$736,987. General fund will be appropriated in HB2 to the Secretary of State for this statewide base cost and all the cumulative per-ballot-issue marginal costs at the end of the session.
3. In FY 2001, a tax election would be combined with a general election and would, therefore, require only marginal costs for ballot issues.